ECONOMICS AND MORAL COURAGE

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It must be really painful to be an economist of the mainstream today—at least, it should smart to some extent. In a financial and economic calamity of the current scale, people naturally want to know who issued the warnings about the real-estate bubble and its likely aftermath.

When private-sector jobs have not grown at all in ten years, and when ten years of domestic investment is systematically undone in the course of eighteen months, when housing prices in some sections of the country collapse 80 percent, and when formerly prestigious banks go belly-up or receive many billions in rescue aid, people want to know which economists saw this coming.

Perhaps it is these economists—the ones who had long issued the warnings, and not the ones relentlessly consulted by the media—who should be giving the

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guidance about going forward. Maybe they ought to be weighing in on whether the new stock-market boom is a reflection of reality, or another bubble developing within a bust that could lead to a secondary depression.

Among the mainstream, however, no one saw it coming. That is because they have never learned the lesson that Bastiat sought to teach; namely that we need to look beneath the surface, to the unseen dimensions of human action, in order to see the full economic reality. It is not enough just to stand back and look at points on a chart going up and down, smiling when things go up and frowning when things go down. That is the nihilism of an economic statistician who employs no theory, no notion of cause and effect, no understanding of the dynamics of human history.

So long as things were going up, everyone thought the economic system was healthy. It was the same in the late 1920s. In fact, it has been the same throughout human history. It is no different today. The stock market is going up, so surely that is a sign of economic health. But people ought to reflect on the fact that the highest-performing stock market in the world in 2007 belonged to Zimbabwe, which is now home to a spectacular economic collapse.

Because of this tendency to look at the surface rather than the underlying reality, the business-cycle theory has been a source of much confusion throughout economic

history. To understand the theory requires looking beyond the data and into the core of the structure of production and its overall health. It requires abstract thinking about the relationship between capital and interest rates, money and investment, real and fake saving, and the economic impact of the central bank and the illusions it weaves. You can't get that information by watching numbers blow by at the bottom of your TV screen.

Then, when the crisis hits, it comes as a complete surprise every time, and economists find themselves in the role of forging a plan to do something about the problem. This is when a crude form of Keynesianism comes into play. The government spends what money it has and prints what it doesn't have. Unemployed people are paid. Tricks to prop up failing industries abound. Generally, the approach is to gin up the public to engage in some form of exchange, in order to keep reality at bay.

Austrians counsel a different approach, one that takes account of the underlying reality during the boom phase. They draw attention to the existence of the bubble before it pops, and once it goes away, the Austrians suggest that it does no good to blow another bubble or otherwise keep uneconomic production and plans going.

The Austrians in the late 1920s and early 1930s found themselves having to explain this again and again, but it was the onset of the age of positivism—the method that posits that only what you see on the surface really

matters—so they had a very difficult time making points that were more sophisticated. They were like scientists trying to address a convention of witch doctors.

The same is true today. The Austrian account of economic depression requires thinking on more than one level to arrive at the truth, whereas economists these days are more likely to be looking for obvious explanations and even more obvious solutions, even when these neither explain nor solve anything.

This puts the Austrians in an interesting position within the intellectual culture of any time and place. They must go against the grain. They must say the things that others do not want to hear. They must be willing to be unpopular, socially and politically. I'm thinking here of people like Benjamin Anderson, Garet Garrett, Henry Hazlitt, and, on the Continent, L. Albert Hahn, F.A. Hayek, and, above all, Ludwig von Mises. They gave up career and fame to stick with the truth and say what had to be said.

Later in life, when speaking before a group of economics students, Hayek bared his soul about this problem of the moral choices economists must make. He said that it is very dangerous for an economist to seek fame and fortune and to work closely with political establishments, simply because, in his experience, the most important trait of a good economist is the courage to say the unpopular thing. If you value your position

and privileges more than truth, you will say what people want to hear rather than what needs to be said.

This courage to say the unpopular thing marked the life of Ludwig von Mises. Today, his name resonates around the world. The tributes to him pour out on a monthly and weekly basis. His books remain massive sellers. He is the standard-bearer for science in the service of human freedom. Especially after *Mises: The Last Knight of Liberalism*, Guido Hülsmann's biography of Mises appeared the appreciation for his courage and nobility have grown.

But we must remember that it was not always so, and it did not have to be so. This kind of immortality is granted in no small measure because of the discrete moral choices he made in life. For if you had asked anyone about this man between 1925 and the late 1960s—the bulk of his career—the answer would have been that he was washed up, old school, too doctrinaire, intransigent, unwilling to engage the profession, attached to antique ideas, and his own worst enemy. They called him the "last knight of liberalism" as a way of conjuring up images of Don Quixote. When Yale University solicited opinions on whether it should publish *Human Action*, most people answered that this book should never see the light of day because its time was long past. It was thanks only to the intervention of Fritz Machlup and Henry Hazlitt that Yale bothered at all.

Mises was as undaunted then as he had been throughout his life, and as he remained until his death. He had made a moral choice not to give in to the prevailing winds.

Before going into that choice more, I would like to speak of another economist who was a contemporary of Mises's. His name was Hans Mayer. He was born in 1879, two years before Mises. He died in 1955.

While Mises worked at the chamber of commerce because he was denied a paid position at the University of Vienna, Mayer served as one of three full professors there, along with socialist Othmar Spann and Count Degenfeld-Schonburg.

Of Spann, Mises wrote that "he did not teach economics. Instead he preached National Socialism." Of the count, Mises wrote that he was "poorly versed in the problems of economics."

It was Mayer who was the truly formidable one. Yet he was no original thinker. Mises wrote that his "lectures were miserable, and his seminar was not much better." Mayer wrote only a handful of essays. But then, his main concern had nothing to do with theory and nothing to do with ideas. His focus was on academic power within the department and within the profession.

Now, people outside of academia may not understand what this means. But inside academia, people know all about it. There are people in every department

who expend the bulk of their efforts on the pettiest form of professional advancement. What is at stake? Not that much. But as we know, the smaller the stakes, the more vicious the fight.

Among the prizes are better titles, higher salaries, the ability to get the best possible teaching times, to reduce one's teaching load (ideally to zero) and office hours, to advance one's favorite people, to get a larger office with a puffier chair, to know all the right people in the profession, and, best of all, to lord it over others: to be able to reduce the influence of your enemies and increase the influence of your friends in a way that can cause people to become your lifetime minions and supplicants.

With the state, there are even more prizes: to be close to politicians, to get outside gigs in which you serve as an expert in drafting legislation or in legal proceedings, to testify before Congress, to get called by the mainstream media to comment on national affairs, and the like. The point is not to advance ideas, but rather to advance oneself in a professional sense.

Outsiders imagine that university life is all about ideas. But insiders know that the real battles that take place within departments have very little to do with ideas or principles. Strange coalitions can develop, based entirely on the pettiest of issues. Professional ambitions are the driving force, not principles. There

are people in every department who are highly accomplished, but whose accomplishments have nothing to do with science, teaching truth, or pursuing a vocation as a real scholar.

This has been the case for many centuries in academia, but it may be worse now than ever. These pursuits are often well rewarded in this life, while those who eschew them in favor of truth are pushed aside and relegated to a permanent low status. These are just some of the facts of life. This is what Hayek was referring to. And Mises's life illustrates the point perfectly.

But let's return to Professor Mayer. The main energies of Mayer were spent on an open war against his rival for power, Othmar Spann. This consumed him almost completely. He believed that he had to keep Spann at bay in order to advance himself. Mayer smeared Spann in every possible place and way, in a war to the knife. Note here that Mayer and Spann did not disagree on any matter of policy in any substantive way. It was all about position and power.

When he wasn't consumed with passionate hatred for and plots against Spann, Mayer spent the remainder of his energy building up his power base within the University of Vienna. It began well for him as the acknowledged successor to Friedrich von Wieser, who was the previous power broker. Mayer had established himself as the most groveling student of Wieser's. His reward was

that Wieser named him as his successor, bypassing not only Mises but also the remarkable Joseph Schumpeter.

Then began Mayer's march. He called the shots. Mises himself was on the enemies list, of course. Mayer was in part responsible for denying Mises a full-time teaching position and salary. But that wasn't enough for him. He treated Mises's students very badly during examinations. For this reason, Mises even went so far as to suggest that his seminar participants decline to be officially registered, if only to prevent them from being harmed by Mayer. Mayer also worked to make it nearly impossible for any student in the department to write a dissertation under Mises. The politics were vicious and relentless.

What was Mises's attitude? He writes in his memoir, "I could not be bothered by all of these things." He just kept on doing his work. One can easily imagine scenes from this period. Mises is in his office writing and reading, trying to hammer out and perfect the theory of the business cycle or reflect on the problem of economic methodology. A student would come in to let him know about Mayer's latest antics. Mises would look up from his work, sigh with exasperation, and tell the student not to worry about it, and then go on with his work. He refused to be drawn in.

The Mises Circle was aghast by the goings-on, but the members did their best to make light of it all. They

even made up a song, set to a traditional Viennese melody, called the "Mises-Mayer Debate" that featured the two economists talking past each other and sharing no common values at all.

At one point, Mises's circle grew into a full-blown economic society associated with the university. Mises could only be vice president, since Mayer would, of course, be president, since he was the master of the universe as far as economics in Vienna was concerned. And he never missed a chance to underscore who he was and what he could do.

Mises's position as vice president would not last. The time came when Nazism grew in influence in Austria. As an old-time liberal and a Jew, Mises knew that his time was limited. Sensing the possibility of even physical harm, Mises accepted a new position in Geneva and left for his new home in 1934. The society declined in membership and otherwise floundered.

In 1938, Austria was annexed to the German Third Reich. Mayer had a choice about what he would do. He could have stood by principle. But why would he do that? It would have meant sacrificing his self-interest for the greater good, and that is something that Mayer had never done. Quite the opposite: his entire academic career was about Mayer and Mayer alone.

So, to his ever-lasting disgrace, he wrote to all members of the Economic Society that all non-Aryans were

hereby expelled. This meant, of course, that no Jews were allowed to continue their membership. He cited "the changed circumstances in German Austria, and in view of the respective laws now also applicable to this state."

So you can see, then, that all of Mayer's power over his underlings was bested by the greater power of the state, to which he was unfailingly loyal. He thrived before the Nazis. He thrived during the Nazi takeover. He helped the Nazis purge the Jews and the liberals from his department. Note that Mayer was no raging anti-Semite himself. His decision was a result of a series of discrete choices for position and power in the profession and against truth and principle. For a time, this seemed harmless in some way. And then the moment of truth arrived, and he played a role in the mass slaughter of ideas and those who held them.

Perhaps Mayer thought he had made the right choice. After all, he maintained his privileges and perks. And after the war, when the Communists came and took over the department, he thrived then too. He did all that an academic was supposed to do to get ahead, and achieved all the glory that an academic can achieve, regardless of the circumstances.

But consider the irony of all this power and glory. In the bigger picture of Continental economics in general, the Austrians were not highly regarded by the profession at large. Since the turn of the century, the German

historical school had captured the mantle of science. Their empirical orientation and stance against classical theory had, over the decades, melded nicely with the rise of positivism in the social sciences.

Never forget that the phrase *Austrian school* was coined not by the Austrians but by the German historical school, and the phrase was used as a put-down, with overtones of a school mired in scholasticism and medieval deduction rather than real science. So our friend Mayer thought that he was master of the universe, when he was a very small fish in an even smaller pond.

He played the game and that was all he did. He thought he won, but history has rendered a different judgment.

He died in 1955. And then what happened? Justice finally arrived. He was instantly forgotten. For all the students he had during his life, he had none after death. There were no Mayerians. Hayek reflected on the amazing development in an essay. He expected much to come out of the Wieser-Mayer school, but not much to come out of the Mises branch. He writes that the very opposite happened. Mayer's machine seemed promising, but it broke down completely, while Mises had no machine at all and he became the leader of a global colossus of ideas.

If we look at Mark Blaug's book *Who's Who in Economics*, a 1,300-page tome, there is an entry for Menger,

Hayek, Böhm-Bawerk, and, of course, Ludwig von Mises. The entry calls Mises "the leading twentieth-century figure of the Austrian school" and credits him with contributions to methodology, price theory, business-cycle theory, monetary theory, socialist theory, and interventionism. There is no mention of the price he paid in life, no mention of his courageous moral choices, no mention of the grim reality of a life moving from country to country to stay ahead of the state. He ended up being known only for his triumphs, about which not even Mises was ever made aware during his own life.

And guess what? There is no entry at all in this same book for Hans Mayer. It is not that his status is reduced, not that he is noted and dismissed, not that he is put down as a minor thinker with enormous power. He is not called a Nazi collaborator or a Communist collaborator. Not at all. He isn't even mentioned. It is as if he'd never existed. Mayer's legacy vanished so fast after his death that he was forgotten only a few years later.

It is so bad for Mayer today that Wikipedia doesn't even have an entry for him. In fact, this talk has given more attention to him and his legacy than probably any other in fifty years. You might wait forever for another mention.

The Mayer line ended. But the Mises line was just beginning. He left for Geneva in 1934, accepting a dramatic pay cut. His fiancée followed and they were

married, but not before he warned her that though he would write much about money, he would never have much of it.

And in Geneva he stayed for six years, having left his beloved Vienna, and watched the world go through a shredding of civilization. The Nazis ransacked his old apartment in Vienna, and stole his books and papers. He lived a nomadic existence, unsure of where his next position would be. And this was the way he lived in the prime of his life: he was in his mid-fifties and he was nearly homeless.

But as he'd dealt with the Mayer problem during those years in Vienna, Mises would not be distracted from his important work. For six years, he researched and wrote. The result was his magnum opus, a massive treatise on economics called *Nationalökonomie*. In 1940, he completed the book and it was published in a small print run. But how intense was the demand in 1940 for a book on the economics of freedom written in German? This was not destined to be a bestseller. He surely knew this while writing it. But he wrote it anyway.

Instead of book signings and celebrations, Mises faced another life-changing event that year. He received word from his Geneva sponsors that there was a problem. There were too many Jews taking refuge in Switzerland. He was told that he needed to find a new home. The United States was the new safe haven.

He began to write letters for positions in the United States, but think what this would mean. He was a German speaker. He had a reading knowledge of English, but he would need to learn it to the point that he could actually lecture in it. He had lost his notes and files and books. He didn't have any money. And he didn't know any powerful people in the United States.

There was a serious ideological problem in the United States too. The country was completely enthralled with Keynesian economics. The profession had turned. There were almost no free-market economists in the United States, and no academic to champion his cause. There were a few leads he had on jobs, but they were only promises, and there was no discussion of pay or any kind of security. He ended up having to leave with no assurances at all. He was almost sixty.

But in the United States, Mises did have a major champion outside of academia. His name was Henry Hazlitt. Let me review Hazlitt's history here, too. He began his work as a financial journalist and book-review editor for New York papers. He became so well known as a literary figure that he was hired as the literary editor for *The Nation* before the New Deal. His free-market views were not a special problem for him in those days. But after the Great Depression, liberal intellectuals had to make a choice: they had to adhere to free-market theory or embrace the industrial-planning state of FDR.

The Nation went with the New Deal. This was a major reversal for this organ of liberal opinion that had long championed freedom and condemned industrial statism. The New Deal was nothing if not the imposition of a fascist system of economics, but *The Nation* set a precedent for the American Left that this ideological tendency has followed ever since: all principles must eventually yield to the one overriding imperative of opposing capitalism, no matter what.

Hazlitt refused to go along with the change. He argued with his colleagues. He pointed out the fallacies of the National Industrial Recovery Act. He patiently tried to explain to them the absurdities of the New Deal. He wouldn't give in. They fired him.

H.L. Mencken saw the greatness of Hazlitt's work and hired him as his own successor at the *American Mercury* before turning over full control. Sadly, this didn't work out either, because the ownership of that publication did not like Hazlitt's Jewishness or free-market bent, and sent him packing yet again.

In different ways, in different sectors, and in different countries, it seemed like Mises and Hazlitt were living parallel lives. At each crossroad in life, they had both chosen the path of principle. They chose freedom even when it was at the expense of their own bank accounts and even though their choice brought professional decline and risked failure in the eyes of their colleagues.

Hazlitt moved to the *New York Times*, which back then did not have nearly the prestige it has today, however undeserved. He used his position to write about Mises's books, like *Socialism*. This grabbed the attention of a handful of American business people, like Lawrence Fertig, who later became—like Hazlitt—a very generous donor to the Mises Institute. It was Fertig and his friends who knew of Mises's arrival in America, and they were thrilled. They had seen what a devastating blow FDR and Keynesianism were for free-market ideas. They put together a fund that would provide Mises a position at New York University, where he could teach and write. He was not paid by the university, where he was always a visiting professor, but through a private endowment.

Do you see how all of this links up? Hazlitt took the moral road, the courageous road, the road of sacrifice and principle. It was because of this that Mises, who had taken a similar road, could find safe haven in the United States. It was not the position that he deserved. He would be treated much worse than the Keynesians and Marxists. But it was something. It was an income to pay the bills. It was a chance to teach and write. He had the freedom to say what he wanted to say. That's all he needed.

So we see how these two men of principle, worlds apart, ended up being drawn to each other because they recognized a type: the man who is willing to do what is right regardless of the circumstances. Each could have

gone another way. Mises might have been every bit as famous and powerful as Mayer had been, but he would have thrown away the immortality of his ideas in the process. Hazlitt could have been a high-status writer with a major outlet, but he would have had to surrender every ounce of integrity in order to do so.

Working together, they were able to overcome.

One of the people who had been drawn to Mises through Hazlitt's writing was the head of Yale University Press, Eugene Davidson, who had approached Mises about doing an English-language edition of his magnum opus from 1940. Mises had already dedicated six years to that book and it had sunk without a trace. Now he was being asked to translate it into English. It was a daunting task, but he agreed in principle. Yale then set out to find referees to approve such a huge publishing risk. Yale first went to Mises's old colleagues, and they were about as disappointing as referees as they were in other aspects of their careers. They wrote that there was no need to publish the book. Mises's ideas were old and superseded by Keynesian theory. But Yale persisted. Hazlitt finally managed to assemble a group of people who would endorse the book's translation, and Mises got to work again.

We all know the frustration that comes with losing a file on one's computer and having to recreate it. Imagine what it was like for Mises to lose a 1,000-page

book, lose it to history in dark times, and to be asked to recreate it in another language.

But he was undaunted. He got to work, and the result appeared fully nine years later. The book was called *Human Action*. By academic standards, it was a best seller and remains so sixty years later.

Even so, Mises remained at his unpaid, unofficial position. He gathered around him students for his seminar, even though other professors warned the students not to take the class or attend the sessions. They discouraged their students from having much to do with him at all. The dean seconded their hostility. For Mises, who had navigated the wars at the University of Vienna, this was small potatoes, nothing to pay attention to at all.

Slowly his fame spread, but we need to remember that even at its height then, in the United States, it was tiny compared with what it is today. In fact, Mises died a year before what is usually considered the Austrian revival, which is often dated from 1974, when Hayek received the Nobel Prize, a prize that was entirely unexpected and that had to be shared with a socialist—and that shocked a profession that had no interest in the ideas of either Mises or Hayek, whom they considered to be dinosaurs.

It is interesting to read Hayek's acceptance speech. It is a tribute to a profession to which he wanted closer ties.

But it was not a loving presentation of the glories of academia. In fact, it was the opposite. He said that the most dangerous person on earth is an arrogant intellectual who lacks the humility necessary to see that society needs no masters and cannot be planned from the top down. An intellectual lacking humility can become a tyrant—and an accomplice in the destruction of civilization itself.

It was an amazing speech for a Nobel Prize winner to give, an implicit condemnation of a century of intellectual and social trends, and a real tribute to Mises, who had stuck by his principles and never given in to the academic trends of his time.

A similar story could be told about the life of Murray N. Rothbard, who might have become a major star in an Ivy League department but instead decided to follow the lead of Mises in economic science. He taught for many years at a tiny Brooklyn college instead, at very low pay. But as with Mises, this element of Rothbard's life is largely forgotten. After their deaths, people have forgotten all the trials and difficulties these men faced in life. And what did these men earn for all their commitments? They earned for their ideas a certain kind of immortality.

What are those ideas? They said that freedom works and freedom is right, that government does not work and that it is the source of great evil in the world. They proved these propositions with thousands of applications. They wrote these truths in scholarly treatises and

popular articles. And history has vindicated them again and again.

We are living now through another period of economic planning, and we are seeing economists split on both sides. The overwhelming majority is saying what the regime wants them to say. To depart too much from the prevailing ideology of power is more of a risk than most want to take. A small minority, the same group that warned of the bubble, is again warning that the stimulus is a fake. And they are going against the grain in saying so.

I'm with Hayek on this point. To be an economist with integrity means having to say things that people don't want to hear and especially to say things that the regime does not want to hear. It takes more than technical knowledge to be a good economist. It takes moral courage, and that is in even shorter supply than economic logic.

Just as Mises needed Fertig and Hazlitt, economists with moral courage need supporters and institutions to back them up and give them voice. We must all bear this burden. As Mises said, the only way to fight bad ideas is with good ones. And in the end, no one is safe if civilization is sweeping to destruction.

The Mises Institute, founded in 1982, is an education and research center for the study of Austrian economics. In support of the school of thought represented by Ludwig von Mises, Murray N. Rothbard, Henry Hazlitt, and F.A. Hayek, we publish books and journals, sponsor student and professional conferences, and provide online education. Mises.org is a vast resource of free material for anyone in the world interested in these ideas. For adovacte a radical shift in the intellectual climate, away from statism and toward a private property order.

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